

# LSV Asset Management: A Valued Relationship

DECEMBER 2019

## Snapshot

- › A chance meeting led to SEI's early investment in LSV Asset Management and a partnership that has lasted for nearly 25 years.
- › LSV is currently a specialist-advisor to portions of several of SEI's portfolios.
- › The relationship embodies SEI's approach to uncovering high-conviction and emerging managers to capture market opportunities.

Three academic researchers developed a value-oriented contrarian investment strategy based on deep-value analysis using a proprietary model to identify out-of-favour securities. The theory was based in solid research but had yet to be used in real-world portfolios. A chance meeting with SEI led to an early investment and a partnership that has lasted about 25 years.

Today, LSV's employees own a majority of the firm's equity, with the firm's partners owning approximately 61% of the firm and SEI holding the remaining 39% (as at 30 September 2019, per SEI). While SEI's longstanding relationship is that of a venture capital partner, the firm is not involved in LSV's day-to-day management.

## Early Insights into Value

LSV Asset Management (LSV) was established in 1994 by three academics in the field of finance to provide domestic, international and global value-equity investment management services through the application of its proprietary quantitative insights. The investment team developed its financial models through years of research in the areas of value investing and behavioural finance. LSV's roots in these areas form its core investment philosophy and have driven the evolution of the LSV models over time. Josef Lakonishok, one of LSV's founding partners, remains an active leader in the firm.

The unique relationship between SEI and LSV actively illustrates how SEI taps undiscovered managers that might not otherwise warrant attention. While traditional screening methods that require minimum assets under management and track records would have eliminated LSV as a potential partner early in the process, SEI took a unique approach to find value within the academic insights.

LSV is currently the specialist-advisor to portions of the SGMF Global Managed Volatility Fund, SGMF US Large Companies Fund and SGMF US Small Companies Fund, in addition to several other of our US and Canadian investment portfolios. Approximately 23 percent of the total assets managed by LSV relate to the firm's sub-advisory relationship with SEI's Funds (as at 30 September 2019, per LSV).

## Solid performance with downside mitigation

One of the historical benefits of the LSV mandate has been its improvement in risk-adjusted returns relative to its benchmark. There are different ways to calculate risk-adjusted return, but the basic idea is to show the return an investor receives per unit of risk assumed. (Risk is typically measured as the standard deviation, or average dispersion, of a portfolio's returns.) All else equal, a higher risk-adjusted return indicates that a portfolio has potentially struck a better balance between risk and reward. As shown in Exhibit 1, LSV's mandate within the SGMF Global Managed Volatility Fund has done just that. Since its inclusion in the Fund, LSV's average monthly return has been 0.84%—slightly higher than the average monthly returns on its benchmark, the MSCI World Index (Net) (USD). Our strategic focus is on the next two columns, however. The standard deviation of those returns was 2.62% for LSV, which is about 19% lower than the standard deviation of its benchmark. This lower volatility also enhanced LSV's risk-adjusted returns. As shown in the last column of Exhibit 1, the return per unit of standard deviation was 0.32 for LSV's allocation within the SGMF Global Managed Volatility Fund. This is over 30% higher than the 0.24 generated by the benchmark.

### Exhibit 1: Monthly return statistics

	Average Return (%)	Standard Deviation (%)	Risk-Adjusted Return
LSV Asset Management (Global Managed Volatility)	0.84	2.62	0.32
MSCI World Index (Net) (USD)	0.79	3.24	0.24

Sources: SEI, MSCI

Monthly returns span 31/3/2012 to 30/9/2019

Manager returns are gross of fees

Risk-adjusted return is average return divided by standard deviation. Past performance is not a reliable indicator of future results.

LSV's Large Cap Value and Contrarian Value SMV mandates have also provided strong long-term performance and marginally improved risk-adjusted returns (Exhibit 2) since LSV's inclusion within the SGMF US Large Companies Fund and SGMF US Small Companies Fund, respectively.

### Exhibit 2: Monthly return statistics

	Average Return (%)	Standard Deviation (%)	Risk-Adjusted Return
LSV Asset Management (Large Cap Value)	0.72	4.69	0.15
Russell 1000 Value Index (USD)	0.64	4.31	0.15

Sources: SEI, Russell

Monthly returns span 30/6/1998 to 30/9/2019

	Average Return (%)	Standard Deviation (%)	Risk-Adjusted Return
LSV Asset Management (Contrarian Value SMV)	1.00	5.35	0.19
Russell 2500 Value Index (USD)	0.87	4.90	0.18

Sources: SEI, Russell

Monthly returns span 31/8/2000 to 30/9/2019

Manager returns are gross of fees.

Risk-adjusted return is average return divided by standard deviation. Past performance is not a reliable indicator of future results.

# LSV Asset Management (Information correct as at 30/9/19)

## Strategy Description

LSV believes that superior long-term results can be achieved by systematic analysis of the judgmental biases that influence the decisions of many investors. Manifested through its risk-controlled, bottom-up quantitative model, LSV chooses undervalued stocks that have the potential for near-term appreciation in the belief that superior returns will arise when future growth exceeds the market's low expectations.

## Potential Re-Evaluation Triggers

A change in the investment philosophy or a material change in ownership structure.

## What We Like

- › LSV is a true fundamental investor with deep accounting knowledge; the firm derives insights into investor behaviour through a disciplined quantitative process.
- › LSV considers both statistical and fundamental volatility in portfolio construction. In addition, we believe that LSV sufficiently controls two pitfalls of value investing—opportunity cost and value traps.
- › Research remains active at the firm, and we find little evidence of any slowdown or passion in its work. Lakonishok is very much involved and closely monitors portfolio holdings.
- › There is a willingness to close strategies at reasonable asset levels in order to preserve alpha generation.

## Portfolio

### GLOBAL MANAGED VOLATILITY

Tracking Error Target: 8-12%  
Benchmark: MSCI World Index  
Number of Holdings: 150 to 200  
Primary Alpha Source: Stability

### LARGE CAP VALUE

Tracking Error Target: 2.5-4.5%  
Benchmark: Russell 1000 Value Index  
Number of Holdings: 100 to 150  
Primary Alpha Source: Value

### CONTRARIAN SMID CAP VALUE

Tracking Error Target: 3.5-5.5%  
Benchmark: Russell 2500 Value Index  
Number of Holdings: 125 to 175  
Primary Alpha Source: Value

## What We Don't Like

- › There is some key-man risk; the firm's investment excellence is clearly tied to Lakonishok.
- › LSV is close to capacity on select strategies.

## Past Performance (% - USD)

	1 Month	3 Months	YTD	1 Year
LSV (Global Managed Volatility)	3.16	1.63	11.41	1.40
MSCI World Index (Net)	2.13	0.53	17.61	1.83

Source: SEI, MSCI

Performance is gross of fees for the manager's portions of SGMF Global Managed Volatility Fund and SGMF Global Equity Fund as at 30/9/19. See standard performance.

	1 Month	3 Months	YTD	1 Year
LSV (Large Cap Value)	5.99	0.65	13.92	-2.35
Russell 1000 Value Index	3.57	1.36	17.81	4.00

Source: SEI, Russell

Performance is gross of fees for the manager's portion of SGMF US Large Companies Fund as at 30/9/19.

See standard performance.

	1 Month	3 Months	YTD	1 Year
LSV (Contrarian Smid Cap Value)	6.76	0.09	13.06	-8.00
Russell 2500 Value Index	4.58	0.13	15.41	-4.35

Source: SEI, Russell

Performance is gross of fees for the manager's portion of SGMF US Small Companies Fund as at 30/9/19.

See standard performance.

Past performance is not a reliable indicator of future results.

## Standard Performance

	1-Year Performance (%) as at					Since Inception
	(30/9/19)	(30/9/18)	(30/9/17)	(30/9/16)	(30/9/15)	Annualised (%)*
SGMF Global Managed Volatility Fund**	2.57	8.62	11.94	14.44	0.03	9.37
MSCI World Index (Net)	1.83	11.24	18.17	11.29	-5.09	9.25
LSV (Global Managed Volatility)	1.40	9.58	12.58	15.01	-1.53	10.14
MSCI World Index (Net)	1.83	11.24	18.17	11.36	-5.09	9.26

Inception Dates:

SGMF Global Managed Volatility Fund: 28/7/2006

LSV: 21/2/2012

	1-Year Performance (%) as at					Since Inception
	(30/9/19)	(30/9/18)	(30/9/17)	(30/9/16)	(30/9/15)	Annualised (%)*
SGMF US Large Companies Fund**	1.59	14.64	16.60	9.43	-0.62	7.63
Russell 1000 Index (Net 30%)	3.26	17.12	17.83	14.18	-1.15	8.34
LSV (Large Cap Value)	-2.35	9.77	21.08	10.32	-2.50	7.50
Russell 1000 Value Index	4.00	9.45	15.12	16.20	-4.42	6.79

Inception Dates:

SGMF US Large Companies Fund: 20/2/1996

LSV: 26/5/1998

	1-Year Performance (%) as at					Since Inception
	(30/9/19)	(30/9/18)	(30/9/17)	(30/9/16)	(30/9/15)	Annualised (%)*
SGMF US Small Companies Fund**	4.55	3.41	24.96	3.91	0.52	7.18
Russell 2500 Index (Net 30%)	8.32	2.36	24.14	3.45	1.09	7.05
LSV (Large Cap Value)	-8.00	6.02	16.54	14.36	-1.35	10.87
Russell 2500 Value Index	-4.35	10.24	15.75	17.68	-2.44	9.44

Inception Dates:

SGMF US Small Companies Fund: 1/4/2000

LSV: 1/7/2000

\*\*USD Inst shares net of fees

## Important Information

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*The SEI Global Assets Fund Plc, SEI Global Investments Fund Plc, and SEI Global Master Fund Plc (the "SEI Funds") are structured as open-ended collective investment schemes and are authorised in Ireland by the Central Bank as a UCITS pursuant to the UCITS Regulations. The SEI Funds are managed by SEI Investments, Global Ltd ("SIGL"). SIGL has appointed SEI Investments (Europe) Ltd ("SIEL"), an affiliate of SIGL, (together "SEI") to provide general distribution services in relation to the SEI Funds either directly or through the appointment of other sub-distributors. The SEI Funds may not be marketed to the general public except in jurisdictions where the funds have been registered by the relevant regulator. The matrix of the SEI fund registrations can be found here [seic.com/GlobalFundRegistrations](http://seic.com/GlobalFundRegistrations).*

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